



WEEKLY ECONOMIC DIGEST

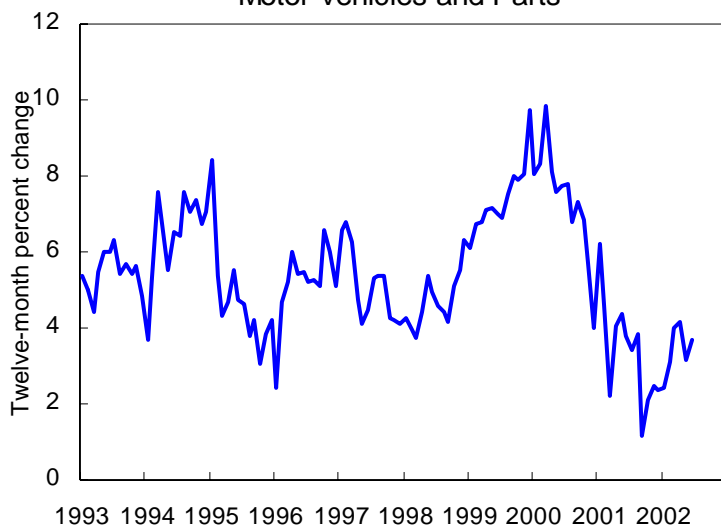


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – VICE CHAIRMAN

July 16, 2002

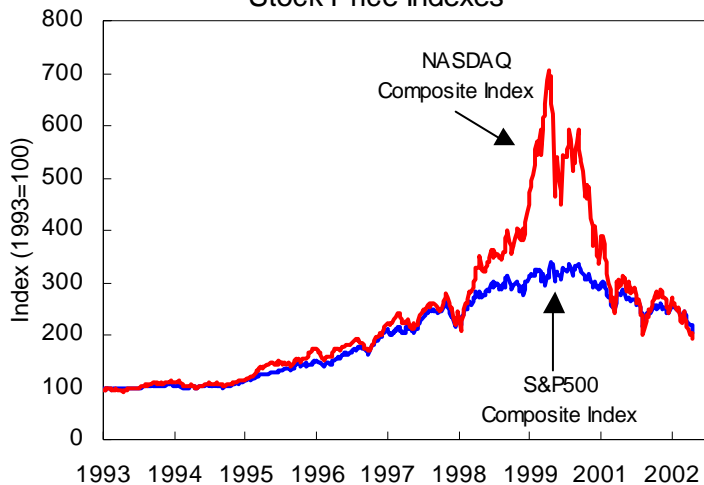
Retail Sales Rise, but Economic and Financial Worries Persist

Retail and Food Services Sales Excluding
Motor Vehicles and Parts



Source: Census Bureau, U.S. Department of Commerce.

Stock Price Indexes



Source: JEC calculations using data from the Wall Street Journal.

NOTE: Each series is rebased so that its value in 1993 equals 100.

- **Retail sales rebounded in June.** After dropping 1.1 percent in May, sales at retail establishments and food services rose 1.1 percent last month, according to preliminary estimates by the Census Bureau. That increase reflected a robust gain in automotive sales. Excluding automotive products, sales grew by 0.4 percent in June to a level that is 3.7 percent above sales a year earlier. While consumer spending has remained relatively strong, the very high rates of growth observed in the first quarter will not be sustained in the second quarter.
- **Consumer sentiment declined sharply.** Troubled by the possibilities of slower economic growth and high unemployment in the coming year, households grew increasingly pessimistic, according to the University of Michigan's survey of consumer sentiment for early July. Plunging stock prices in the wake of the corporate scandals were an important factor in subduing consumers' enthusiasm. However, those declines in consumer sentiment do not necessarily presage a decline in consumer spending. Indeed, consumer sentiment fell in June even as retail sales rose.
- **Stock prices plummeted last week.** Stock prices posted their largest weekly decline since last September. The Standard and Poors index of 500 stocks has fallen by nearly 20 percent since the end of March, and the technology-oriented NASDAQ composite index has fallen by 26 percent. If those declines persist, they might slow consumer spending. Continued declines may also inhibit some investment spending by businesses insofar as lower equity prices raise the cost of capital.

Economy At A Glance	Jun	May	Apr	Mar	2002 Qtr 2	2002 Qtr 1	2001 Qtr 4	2001 Qtr 3	2001	2000
Economic Activity										
Real GDP (% growth)						6.1	1.7	-1.3	1.2	4.1
Industrial Production (% growth)*		2.4	3.7	4.9		2.8	-6.7	-4.7	-3.9	4.5
Capacity Utilization (Level, %)*		75.5	75.4	75.3		75.1	74.7	76.2	76.8	81.8
Civilian Unemployment Rate (Level, %)	5.9	5.8	6.0	5.7	5.9	5.6	5.6	4.8	4.8	4.0
Housing Starts (Thousands)*		1733	1555	1644		1715	1573	1603	1603	1569
Real Disposable Personal Income (% growth)		3.7	-0.9	2.2		13.8	-8.1	12.3	3.6	3.5
Retail Sales (% growth)	14.0	-12.4	15.4	-1.1	3.6	-2.4	12.9	-0.9	3.8	6.7
Personal Saving Rate (Level, %)		3.1	2.8	3.0		2.9	0.4	3.8	1.6	1.0
Inflation & Productivity										
CPI-U Inflation, All Items (% growth)*		0.0	6.2	3.7		1.4	-0.3	0.7	2.8	3.4
Core CPI-U Inflation (% growth)*		2.4	3.7	1.2		2.3	2.7	2.7	2.7	2.4
Compensation per Hour (% growth)						3.6	4.2	3.7	4.1	4.5
Output per Hour (% growth)						8.4	5.5	1.1	1.9	3.3
Financial Markets										
T-Bill Rate, 3-month (Level, %)	1.7	1.7	1.7	1.8	1.7	1.7	1.9	3.2	3.4	5.8
T-Note Rate, 10-years (Level, %)	4.9	5.2	5.2	5.3	5.1	5.1	4.8	5.0	5.0	6.0
Federal Funds Rate (Level, %)	1.8	1.8	1.8	1.7	1.8	1.7	2.1	3.5	3.9	6.2
Dow Jones Industrial Avg (Index Level)	9492	10080	10165	10501	9913	10105	9641	9934	10189	10735

Sources: Bureau of Economic Analysis, US Department of Commerce; US Bureau of the Census; Board of Governors of the Federal Reserve System; Bureau of Labor Statistics, US Department of Labor, Wall Street Journal; and, Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

* Subject to revision this week.

Upcoming Economic Releases:

- **Industrial Production, June** [Release: Tuesday, July 16, 2002]
- **Housing Starts, June** [Release: Wednesday, July 17, 2002]
- **International Trade, May** [Release: Friday, July 19, 2002]
- **Consumer Price Index, June** [Release: Friday, July 19, 2002]